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MEMORANDUM

May 23, 2022

TO: The Chairman and Members of the Commission

FROM: Joshua Bowman, Regulatory Policy Administrator

SUBJECT: IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY, INC. FOR AUTHORITY TO IMPLEMENT A DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC) RATE FOR ELECTRIC DISTRIBUTION EFFECTIVE JANUARY 1, 2021, PURSUANT TO 26 *DEL. C.* § 315 (FILED NOVEMBER 30, 2020) – PSC DOCKET NO. 20-0803

IN THE MATTER OF THE APPLICATION OF DELMARVA POWER & LIGHT COMPANY, INC. FOR AUTHORITY TO IMPLEMENT A DISTRIBUTION SYSTEM IMPROVEMENT CHARGE (DSIC) RATE FOR ELECTRIC DISTRIBUTION EFFECTIVE JULY 1, 2021, PURSUANT TO 26 *DEL. C.* § 315 (FILED MAY 28, 2021) – PSC DOCKET NO. 21-0409

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On November 30, 2020, Delmarva Power & Light Company ("Delmarva" or the "Company") filed with the Delaware Public Service Commission ("Commission") an application to set its Distribution System Improvement Charge ("Electric DSIC Rate") at 1.29% with an effective date of January 1, 2021. This was based on net additional plant of \$25,948,451 placed into service between October 1, 2020, and October 31, 2020, along with an associated semi-annual depreciation expense of \$253,641. Delmarva did not include additional plant placed into service

from May 2020 through September 2020 because such improvements were included in its then-pending rate case, Docket 20-0149.

On December 14, 2020, the Commission entered Order No. 9707, opening Docket No. 20-0803 and approving Delmarva's request to set its Electric DSIC Rate at 1.29%, subject to Commission Staff's ("Staff") annual audit and review to be performed based on the 12-month period ending December 31, 2021.

On March 30, 2021, Delmarva filed a request to reset its Electric DSIC Rate to 0.00% effective April 1, 2021, to mitigate the over-collection of Electric DSIC revenue due to the discovery of an accounting error in the original filing.

On March 31, 2021, the Commission entered Order No. 9771, approving Delmarva's request to reset its Electric DSIC Rate to 0.00% effective April 1, 2021.

On May 28, 2021, Delmarva filed an application to reset its Electric DSIC Rate to 1.74%, with an effective date of July 1, 2021. This application was based on net plant additions in the amount of \$30,084,506, and an associated semi-annual depreciation expense of \$439,421. This application also included revised numbers for Docket No. 20-0803 to correct the error. The revised net plant additions placed into service between October 1, 2020, and October 31, 2020, was \$189,340, and the revised associated semi-annual depreciation was \$40,346.

On June 23, 2021, the Commission entered Order No. 9825, opening Docket No. 21-0409 and resetting Delmarva's Electric DSIC Rate to 1.66%,<sup>1</sup> subject to Staff's annual audit and review to be performed based on the 12-month period ending December 31, 2021.

Between March and May of 2022, Delmarva began providing information for Docket Nos. 20-0803 and 21-0409, as requested, and Staff conducted the audit and review of the Electric DSIC Rates. The audit consisted of the established procedures utilized for companies undergoing annual DSIC Rate audits. The audit concentrated on the three major components of the DSIC Rate; namely, Rate Base, Rate of Return, and Depreciation.

Findings for PSC Docket No. 20-0803: Effective Period January 1, 2021 – June 30, 2021

Staff reviewed the Company's quarterly Rate of Return reports associated with this Docket's effective period. Staff confirmed that the Company was not earning a Rate of Return in excess of its authorized Rate of Return. Staff also reviewed a sampling of customer bills from the effective time period to determine if the billing accurately reflected the DSIC Rate component. No discrepancies were found.

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<sup>1</sup>In Order No. 9825, the Commission described the two adjustments it made to the requested DSIC Rate of 1.74%, which resulted in the approved DSIC Rate of 1.66%.

The adjusted semi-annual Electric DSIC revenue requirement for this Docket was \$104,323. During this Docket's effective time period, the Company collected \$864,573 in Electric DSIC revenues. This resulted in an over-collection in the amount of \$760,250. This over-collection is subject to interest.

Staff then reviewed the adjusted Rate Base components of the Electric DSIC Rate calculation. The adjusted plant additions were reviewed for conformity with statutory requirements. Plant additions were traced by project and by account and were reviewed to ascertain whether appropriate expenditures were included in the Rate Base components of the Electric DSIC Rate. Staff believes that the adjusted plant additions portion of the Electric DSIC Rate calculation are accurate.

Finally, Staff reviewed the adjusted Semi-Annual Depreciation Expense component of the Electric DSIC Rate. The Company's calculation of total depreciation comported with the amount posted to the general ledger, and the rates were the same as those approved by the Commission.

Therefore, Staff recommends that the Electric DSIC Rate of 1.29% in effect from January 1, 2021, through March 31, 2021, and reset to 0.00% effective April 1, 2021, through June 30, 2021, be approved as final.

Findings for PSC Docket No. 21-0409: Effective Period July 1, 2021 – December 31, 2021

Similar to Docket No. 20-0803, Staff reviewed the Company's quarterly Rate of Return reports associated with this Docket's effective period. Staff confirmed that the Company was not earning a Rate of Return in excess of its authorized Rate of Return. Staff also reviewed a sampling of customer bills from the effective time period to determine if the billing accurately reflected the DSIC Rate component. No discrepancies were found.

The semi-annual Electric DSIC revenue requirement for this Docket was \$1,937,580. During this Docket's effective time period, the Company collected \$2,037,210 in Electric DSIC revenues. This resulted in an over-collection of \$99,630 of the semi-annual revenue requirement for this period.

Staff then reviewed the Rate Base Components of the Electric DSIC Rate calculation. The plant additions were reviewed for conformity with statutory requirements. Plant additions were traced by project and by account and were reviewed to ascertain whether appropriate expenditures were included in the Rate Base components of the Electric DSIC Rate. Staff believes that the plant additions portion of the Electric DSIC Rate calculation are accurate.

Finally, Staff reviewed the Semi-Annual Depreciation Expense component of the Electric DSIC Rate. The Company's calculation of total depreciation comported with the amount

posted to the general ledger, and the rates were the same as those approved by the Commission.

Therefore, Staff recommends that the Electric DSIC Rate of 1.66% in effect from July 1, 2021, through December 31, 2021, be approved as final.

The over-collection of Electric DSIC revenue for the Electric DSIC Rate period defined in PSC Docket No. 20-0803 in the amount of \$760,250 plus interest in the amount of \$32,712, along with the over-collection of Electric DSIC revenue for the Electric DSIC Rate period defined in PSC Docket No. 21-0409 in the amount of \$99,630, result in a total combined over-collection of \$892,592 for the 12-month period ending December 31, 2021.

This total over-collection amount will be reconciled in Delmarva's next Electric DSIC Rate application.

Staff recommends that the Commission approve the conditional rates from PSC Order Nos. 9707, 9771, and 9825 as final 2021 Electric DSIC Rates for the associated time periods and that the Commission close Docket Nos. 20-0803 and 21-0409.